

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

November 24, 2004

IN RE:

**REVISION OF BUSINESS RATES TO REFLECT AD
VALOREM TAX EQUITY PAYMENT PURSUANT TO
TENN. CODE ANN. § 67-6-221 AND § 67-6-222**

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**DOCKET NO.
04-00286**

ORDER APPROVING AMENDED TARIFFS

This matter came before Director Deborah Taylor Tate, Director Sara Kyle, and Director Ron Jones of the Tennessee Regulatory Authority (the “Authority” or “TRA”), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on September 27, 2004 for consideration of amended tariffs that provide adjustments to the business rates of Incumbent Local Exchange Companies (“ILECs”) to reflect Ad Valorem tax equity payments pursuant to Tenn. Code Ann. § 67-6-221 and § 67-6-222.

BACKGROUND

During the 2001 Legislative Session, the Tennessee General Assembly enacted legislation (Tennessee Public Acts Chapter 195 amending Tenn. Code Ann. § 67-6-221 and § 67-6-222, hereinafter referred to as “the Act”) which effectively lowered the amount of property taxes that local exchange carriers are assessed for their properties¹ to match the property tax rates paid by interexchange carriers (“IXCs”)

¹ For property tax purposes, all public utility property owned by incumbent local exchange carriers (“ILECs”) and telephone cooperatives is assessed at the ratio of 55% of the property’s fair market value. On the other hand, personal property owned by IXCs is assessed at the lower ratio of 30% of the property’s fair market value, and real property is assessed at 40% of the property’s fair market value.

The effect of the tax reduction on utility property under the Act reduces the amount of property taxes remitted to local governments, thereby reducing the tax revenue stream that local governments can depend on to fund government operations. To prevent local governments from experiencing revenue declines, the General Assembly created a system of property tax rebates that effectively reduces the assessment ratio on the property owned by the local telephone companies by making annual ad valorem tax equity payments to these eligible carriers. The Act imposed an additional sales tax of 4% on interstate telecommunications business services to fund the tax reduction to local companies.

Under this system the local telephone companies continue paying the local governments at the existing, higher assessment rates for utility property. A portion of the additional 4% tax revenue on long distance calls is remitted into a fund administered by the State Comptroller's Office. The local telephone companies notify the Comptroller's Office each year in order to receive an equity tax payment. This payment represents the difference between the tax assessments at the old higher rate and the new lower rate. In effect, the additional sales tax on interstate telecommunications services allows the local companies to pay less in property taxes through a system of rebates while local governments maintain their existing revenue streams from property taxes.

The rebate system created by the Act effectively reduces the amount of property taxes for local companies, thereby reducing their overall expense of doing business. Accordingly, to prevent the local companies from experiencing windfall profits, the Act requires that any net tax savings be flowed through to rates for business and/or interconnection services.

In June 2004, the ILECs received equity tax payments from the Comptroller's Office based upon their actual tax savings, i.e., the difference in the new lower tax assessment rates and

the old assessment rates. Thereafter the Authority requested all ILECs to provide rate adjustments, including all supporting calculations, to true-up the previous year's rate reductions and to reflect the actual tax payment received as required by the Act. After review of the initial proposed rate adjustments and supporting calculations filed by the ILECs, certain changes were required to the methodologies presented in the filings. Each ILEC tariff reflects the revised calculations and appropriate rate adjustments. All ILEC tariffs were filed under the docket number of this proceeding.

September 27, 2004 Authority Conference

During the September 27, 2004 Authority Conference, the panel considered the following ILEC tariffs:

Tariff 04-00980 – Concord Telephone Exchange Co., Inc. (TDS)
Tariff 04-00981 – Humphreys County Telephone Co. (TDS)
Tariff 04-00982 – Tellico Telephone Company (TDS)
Tariff 04-00983 – Tennessee Telephone (TDS)
Tariff 04-00997 – Citizens Telecommunications Co. of the Volunteer State
Tariff 04-01001 – Millington Telephone Co., Inc.
Tariff 04-01008 – United Telephone
Tariff 04-01009 – Loretto Telephone Co., Inc.
Tariff 04-01012 – CenturyTel-of Adamsville, Inc.
Tariff 04-01013 – CenturyTel-of Claiborne, Inc.
Tariff 04-01014 – CenturyTel-of Ooltewah, Inc.
Tariff 04-01095 – Sprint United-(UTSE)
Tariff 04-01113 – BellSouth Telecommunications, Inc.
Tariff 04-01114 – Citizens-Communications Co.of Tennessee
Tariff 04-01136 – Ardmore Communications, LLC
Tariff 04-01137 – Crockett Telephone Co., Inc. (TEC)
Tariff 04-01138 – Peoples Telephone Co., Inc.(TEC)
Tariff 04-01139 – West Tennessee Telephone Co., Inc. (TEC)

The Authority analyzed all of these tariffs to determine whether the methodologies, the tax collections and associated rate adjustments contained in each tariff conformed to the statutes. After reviewing the calculations and rate adjustments in each tariff, the panel found that all of the

above-listed tariffs comport with the return of the net amount of tax savings realized to business customers in the form of lower rates as required by the statutory provisions. Whereupon, the panel voted unanimously to approve all of the tariffs listed above.

IT IS THEREFORE ORDERED THAT:

The tariffs filed by the local exchange carriers as set forth in this Order are approved.


Deborah Taylor Tate, Director


Sara Kyle, Director


Ron Jones, Director